

# Insurers dropping Chinese drywall policies

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WEST PALM BEACH, Fla. — James and Maria Ivory's dreams of a relaxing retirement on Florida's Gulf Coast were put on hold when they discovered their new home had been built with Chinese drywall that emits sulfuric fumes and corrodes pipes. It got worse when they asked their insurer for help — and not only was their claim denied, but they've been told their entire policy won't be renewed.

Thousands of homeowners nationwide who bought new houses constructed from the defective building materials are finding their hopes dashed, their lives in limbo. And experts warn that cases like the Ivorys', in which insurers drop policies or send notices of non-renewal based on the presence of Chinese drywall, will become rampant as insurance companies process the hundreds of claims currently in the pipeline.

At least three insurers have already canceled or refused to renew policies after homeowners sought their help replacing the bad wallboard. Because mortgage companies require homeowners to insure their properties, they are then at risk of foreclosure, yet no law prevents the cancellations.

"This is like the small wave that's out on the horizon that's going to continue to grow and grow until it becomes a tsunami," said Florida attorney David Durkee, who represents hundreds of homeowners who are suing builders, suppliers and manufacturers over the drywall.

During the height of the U.S. housing boom, with building materials in short supply, American construction companies turned to Chinese-made drywall because it was abundant and cheap. An Associated Press analysis of shipping records found that more than 500 million pounds of Chinese gypsum board was imported between 2004 and 2008 — enough to have built tens of thousands of homes. They are heavily concentrated in the Southeast, especially Florida and areas of Louisiana and Mississippi hit hard by Hurricane Katrina.

The defective materials have been found by state and federal agencies to emit "volatile sulfur compounds," and contain traces of strontium sulfide, which can produce a rotten-egg odor, along with organic compounds not found in American-made drywall. Homeowners complain the fumes are corroding copper pipes, destroying TVs and air conditioners, and blackening jewelry and silverware. Some believe the wallboard is also making them ill.

The federal government is studying the problem and considering some sort of relief for homeowners.

Meanwhile, the AP interviewed several homeowners who, like the Ivorys, were unlucky enough to purchase properties built with Chinese drywall, and are now being hit with a second and third wave of bad news: Their insurers are declining to fill their claims, then

canceling the policy or issuing notices that policies won't be renewed until the problem is fixed. The homeowners have little recourse since neither the Chinese manufacturers nor the Chinese government are likely to respond to any lawsuits or reimburse them for the defective drywall.

In each instance, the insurer learned of the drywall through a claim filed by the homeowner seeking financial help with its removal.

The Ivorys have sued their builder, but it could take months for their case and hundreds like it to work their way through the courts. In the meantime, they have moved back to Colorado because their three-bedroom ranch home two miles from the Gulf of Mexico is unlivable and soon will be uninsured.

"It's been an emotional roller-coaster," said James Ivory, who is still making mortgage payments on the house. "It was all in our heads, nice weather down there, calm life, beaches. Now I don't know what to do."

John Kuczwanski, a spokesman for the Ivorys' insurer, Citizens Property Insurance Corp., said their claim was denied because the drywall is considered a builder defect, which is not covered under the policy. It also considers the drywall a pre-existing condition that could lead to future damage, which is why the company won't renew the policy unless the problem is fixed.

"If someone were to have bought a new car and there was a defective part, would that person go to their auto insurance to get that fixed or would they go back to the manufacturer?" Kuczwanski said. "We provide insurance, not warranty service."

Citizens, a last-resort insurer backed by the state of Florida for people who can't find affordable coverage elsewhere, has received 23 claims about Chinese drywall, and has so far denied five. Citizens could not immediately say how many policies had been canceled or not renewed because of the drywall.

Robert Hartwig, president of the Insurance Information Institute, agreed that homeowners policies were never meant to cover "faulty, inadequate or defective" workmanship, construction or materials.

Tom Zutell, spokesman for the Florida Office of Insurance Regulation, said the cancellations are troubling, but legal. No law prevents insurance companies from canceling policies because of Chinese drywall.

"We are staying out of the fray at the moment," he said.

Even if a homeowner does not file a claim over the drywall and remains covered, they could later be denied a claim for a fire or another calamity if insurance investigators determine the home contained undisclosed Chinese drywall.

"If you think that by not telling your insurance company about the drywall that you're protected, you're sadly mistaken," Durkee said.

A newly married couple in Hallandale Beach, Fla., saved up for five years to buy their first home only to later discover it had Chinese drywall. They filed a claim with their insurer, Universal Insurance Co. of North America, and were denied.

Universal then sent the couple a letter, stating their policy was being dropped because "the dwelling was built with Chinese drywall."

The couple then signed on with Citizens, but didn't divulge the drywall issue, and hasn't filed another claim. The 31-year-old man requested anonymity because he's afraid of losing his insurance policy, and thus his home.

"I honestly don't know what I'd do if that happened," he said. "All this has basically taken us back five years. We saved money to buy this home."

Universal did not respond to requests for comment.

Louisiana lawyer Daniel Becnel Jr., who represents more than 200 owners of homes containing Chinese drywall, is advising his clients to avoid filing claims with their insurers or they could lose their houses.

"I really believe everybody should have an insurance claim with this," Becnel said. "But it's hard to tell somebody to go make a claim, then they lose their policy ... This is a nightmare for people."

"I tell people flat out if you file, you may lose your insurance," agreed Mississippi attorney Steve Mullins, who has about 100 clients with Chinese drywall in their homes.

Chris Whitfield, a 29-year-old tire repairman, bought a house in Picayune, Miss., after his home in Louisiana's St. Bernard Parish was destroyed by Katrina. He soon discovered it was built with Chinese drywall, and moved out because it was making his family sick.

His claim was denied by his insurer, Nationwide, which followed up with notice that he would be dropped because his policy didn't cover unoccupied dwellings.

Nationwide spokeswoman Liz Christopher declined to comment on Whitfield's case and could not say how many drywall claims had been submitted or how many policies had been canceled or not renewed.

Whitfield offered to move back into the house, but he said he was told he'd first have to replace the drywall.

"I don't know what I'm going to do," he said.

*Associated Press Writer Damian Grass in Miami contributed to this report.*